

MID TERM EXAM: APPLE COMPUTER INC. & ECONOMICS DECISIONS

ASSIGNMENT BY : SAMIR JASANI

BEULAH HEIGHTS UNIVERSITY

Apple Computer Inc. decides to make iTunes freely available in unlimited quantities.**Apple Computers Inc.**

Apple revolutionized personal technology with the introduction of the Macintosh in 1984. Today, Apple leads the world in innovation with iPhone, iPad, Mac, Apple Watch and Apple TV. Apple's four software platforms — iOS, macOS, watchOS and tvOS — provide seamless experiences across all Apple devices and empower people with breakthrough services including the App Store, Apple Music, Apple Pay and iCloud. Apple's more than 100,000 employees are dedicated to making the best products on earth, and to leaving the world better than we found it.

iTunes

Steve Jobs, Apple's founder and chief executive, saw Napster, MP3s and the Internet a different way. By late 2002, he believed music fans clearly wanted to download songs they liked in an affordable and easy way rather than driving to Tower or Best Buy or some indie record store to buy them on \$15-to-\$18 CDs. Jobs won over Warner executives, then moved on to the other big labels, including Universal and Sony. Jobs offered a viable model for the music industry to keep itself afloat while it tried to adjust to the digital age, though he set a dangerous precedent by selling songs for 99 cents. The iTunes Music Store opened April 28th, 2003, and it was an instant revolution. CDs had been available for more than 20 years, but consumers had been demonstrating since Napster's 1999 debut that they were ready for a format change. The iPod suddenly had incredible power, and its white earbuds looked perfect in the "Silhouettes" ads Apple spent millions putting on TV and billboards. iTunes costs \$9.99 per month, or \$14.99 per month for a family subscription for up to six people. College students can subscribe for only \$4.99 per month. This

was the moment digital music was no longer for thieves and miscreants – it was for cool people. In its first week, iTunes sold one million downloads and soon became not only the top online music retailer but, displacing Walmart and Best Buy, the top music retailer. By getting major record labels on his side Jobs quickly amassed the largest amount of sanctioned music available for online purchase. iTunes has also made it much easier for independent artists to make their music commercially available to a wide audience. Record stores were disappearing, but iTunes had a better selection than most of them anyway. (Steve Knopper, APRIL 26, 2013).

Today iTunes offers more than 37 million songs as well as movies, TV shows, books and podcasts. It has now sold more than 25 billion songs, with users downloading on average fifteen thousand songs per minute. iTunes is estimated to account for more than 60 percent of the global digital music download market. While Apple has dominated this blue ocean for more than a decade, as other online stores zoom in on the this market, the challenge for Apple will be to keep its sights on the evolving mass market and not to fall into competitive benchmarking or high end niche marketing.

a. How does Apple’s decision change the opportunity cost of a download?

Opportunity Costs

When economists refer to the “opportunity cost” of a resource, they mean the value of the next-highest-valued alternative use of that resource. If, for example, you spend time and money going to a movie, you cannot spend that time at home reading a book, and you cannot spend the money on something else. If your next-best alternative to seeing the movie is reading the book, then the opportunity cost of seeing the movie is the money spent plus the pleasure you forgo by not reading the book. The word “opportunity” in “opportunity cost” is actually redundant. The cost of

using something is already the value of the highest-valued alternative use. But as contract lawyers and airplane pilots know, redundancy can be a virtue. In this case, its virtue is to remind us that the cost of using a resource arises from the value of what it could be used for instead.

When the iTunes are available for free in unlimited quantity implies apple lovers will choose apple iTunes that's the opportunity cost. This give apple iTunes opportunity to get customers by giving them what are the needs for music and downloads. The opportunity cost of making iTunes free would be losing out on the money that Apple makes with every download. The decision made by Apple can decrease the opportunity cost of iTunes by losing out \$1.29 every download and \$7.99 for recent releases. Recently, As of 2018 Apple told WSJ that they had over 36 million subscribers. Therefore, we can say that the opportunity cost if iTunes is freely available becomes the millions of dollars that they will be losing in terms of moneys. The opportunity cost for Apple will increase which is not good because the money that could be earned and invested somewhere or used in new technology will be lost. The opportunity cost for Apple will increase which is not good because the money that could be earned and invested somewhere or used in new technology will be lost. Apple's services business along with iTunes brought in over \$10.9 billion during the most recent quarter inn 2019, setting records in "every geographic segment" in the process, according to Apple CEO Tim Cook.

One of the greatest competitors of Apple is Spotify. Spotify offers three membership levels (1) Free service that lets you play up to 20 hours of music a month with occasional advertising, (2) \$4.99 a month unlimited plan that lets you stream unlimited music without the ads and (3) a \$9.99 premium service that offers downloadable or streaming music for your smartphone. Spotify already has 170 million active users and 75 million paid users as per statistics from 2018. Spotify is cheaper than iTunes because it has the option of using it for free whereas iTunes is free only for the first three months of usage. With iTunes becoming free it is possible that many people will switch to

iTunes to gain free access to unlimited music in comparison to Spotify's limited usage. The opportunity cost for Spotify will be the customers that they lose to iTunes.

b. Does Apple's decision change the incentives that people face?

Incentive

Incentives are what motivates you to behave in a certain way, while preferences are your needs, wants and desires. Economic incentives provide you the motivation to pursue your preferences.

Let's look at a basic example. Let's say you want wealth. You are motivated to work because you will be paid, which will help you achieve your preference for accumulating wealth.

Financial Incentives

A financial incentive is money that a person, company, or organization offers to encourage certain behaviors or actions. Specifically, behaviors or actions that would not otherwise have occurred. The financial incentive, or monetary benefit, motivates certain behaviors or actions.

A financial incentive may be a monetary benefit that a company offers its customers or employees. The term may also refer to incentives to encourage members of the public to cooperate or provide information. Stock options, profit sharing, raises, bonuses, and commissions, for example, are financial incentives.

Apple's decision change the incentives that people face

Yes, the incentives of providing free latest music available on iTunes by Apple Inc. have increased the decision of people. As it, encourage people to buy new iPods to use free music

without spending any money on subscription. The major benefit will be the extra profit they earn due to the increase in sales because it is possible with the iTunes being free that the sales will see a rise on Apple products but the conception that people had about the products being expensive will see a change in the incentives that people face.

c. Is Apple's decision an example of a microeconomic or a macroeconomic issue?

Microeconomics deals with the economic interactions of a specific person, a single entity or a company; it is the study of markets. The two key elements of microeconomics are the interaction between supply and demand and scarcity of goods. Microeconomics is about maximizing profit for firms, and surplus for consumers and producers. While Macroeconomics is the study of performance, structure, behaviour and decision making of a economy as a whole.

Macroeconomists focus on the national, regional, and global scales. For most macroeconomists, the main purpose is to maximize national income and provide national economic growth.

In my opinion, this decision made by Apple Inc. is microeconomic in nature. In this case, the decision is related to pricing that is the iTunes is available free at no cost. The variable in focus is the price. This decision is concerned with only a single company that is Apple Inc. Though it is a global company, it deals with specific sector that is phones and computers in general.

Microeconomics primarily focuses on the supply, demand and other forces that define the price levels of good and services in the economy. This decision will definitely affect the demand as supply is in abundance so either this could lead to increase in demand by people spending more on apple products to make use of free iTunes or it could lead to a drop as we know in some cases that people don't value things that are freely available.

Conclusion

In conclusion, I feel that Apple's decision is a microeconomic decision, as this decision is related to the Apple Computer Inc. and will affect the consumers of their product only. This will increase the opportunity cost of a download as consumers would chose iTunes more over other alternatives. As a result consumers will take advantage of it as incentives do matter and affect peoples' choices and behavior. Though it is a multinational player, this decision will not have any major external effects on the economy and will not affect the external business environment, as it is the decision of an individual firm.

References

Steve Knopper (2013, April) iTunes' 10th Anniversary: How Steve Jobs Turned the Industry Upside Down. Retrieved from <https://www.rollingstone.com/culture/culture-news/itunes-10th-anniversary-how-steve-jobs-turned-the-industry-upside-down-68985/>

Terrell, E. (2008, April). Apple Computer, Inc. Retrieved from <https://www.loc.gov/rr/business/businesshistory/April/apple.html>.

Wang, Amy. X. (2019). Apple is finally killing iTunes
<https://www.rollingstone.com/music/music-news/apple-is-finally-killing-itunes-842750/>

Griggs, B., & Leopold, T. (2013, April 26). How iTunes changed music, and the world. Retrieved from <https://www.cnn.com/2013/04/26/tech/web/itunes-10th-anniversary/index.html>.

Kenton, W. (2019, July 5). Understanding Opportunity Cost. Retrieved from <https://www.investopedia.com/terms/o/opportunitycost.asp>

Gartenberg , C. (2019, March 20). How Apple makes billions of dollars selling services. Retrieved from <https://www.google.com/amp/s/www.theverge.com/platform/amp/2019/3/20/18273179/apple-icloud-itunes-app-store-music-services-businesses>.

MasterClass. (2019, September 18). Understanding Incentives in Economics: 5 Common Types of Economic Incentives. Retrieved from <https://www.masterclass.com/articles/understanding-incentives-in-economics#5-common-types-of-economic-incentives>.

Staff, I. (2019, August 22). Microeconomics vs. Macroeconomics: What's the Difference? Retrieved from <https://www.investopedia.com/ask/answers/difference-between-microeconomics-and-macroeconomics/>.

Gebreegziabher. (2019, August 30). Macroeconomics vs Microeconomics - Top 5 Differences [Infographics]. Retrieved from <https://www.educba.com/macroeconomics-vs-microeconomics/>.

study.com. Retrieved from <https://study.com/academy/answer/a-apple-computer-inc-decides-to-make-itunes-freely-available-in-unlimited-quantities-with-this-decision-a-tunes-are-no-longer-scarce-and-the-incentive-to-listen-to-tunes-remains-the-same-b-tune.html>